LOGE	(Unit	of Gov	emment Typ	·B			Local Unit Name	District, Michigan	County
	ount	y	☐City	□Twp	∐Village	Other	Rocheste	r Community School	Oakland
Fisca	al Yea	r End			Opinion Date			Date Audit Report Submitted to State	
		06/	30/2007	7	Novemb	er 9, 2	2007	November 14, 2007	
le a	ffirm	that	!						
le a	re ce	ertifie	d public ac	ccountants	s licensed to p	oractice in N	/lichigan.		
					erial, "no" res ments and re			I in the financial statements, includi	ng the notes, or in the
	YES	2	Check ea	ach applic	able box be	l ow. (See in	nstructions for fur	ther detail.)	
۱.							s of the local unit ents as necessa	are included in the financial statem y.	ents and/or disclosed in the
ž.	V							's unreserved fund balances/unrest get for expenditures.	nicted net assets
) .	X		The local	unit is in o	compliance w	ith the Unifo	orm Chart of Acc	ounts issued by the Department of	Treasury.
ŀ.	X		The local	unit has a	dopted a bud	get for all n	equired funds.		
ĵ.	X		A public h	nearing on	the budget w	as held in a	accordance with	State statute.	
3,	X						Finance Act, an and Finance Div	order issued under the Emergency rision.	Municipal Loan Act, or
,	X		The local	unit has n	ot been delin	quent in dis	tributing tax reve	nues that were collected for anothe	er taxing unit.
3 .	V		The local	unit only l	nolds deposit	s/investmen	its that comply w	ith statutory requirements.	
9.	X		The local Audits of	unit has r Local Unit	io illegal or ur Is of Governn	nauthorized nent in Mich	expenditures tha	at came to our attention as defined (see Appendix H of Bulletin).	in the Bulletin for
10. X There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.									
11.	\mathbf{x}		The local	unit is fre	e of repeated	comments	from previous ye	arş.	
12.	X		The audit	opinion is	UNQUALIFI	ED.			
13.	X		The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).						
4.	菜		The board	d or counc	il approves a	ll invoices p	prior to payment a	as required by charter or statute.	
5.	X		To our kn	owledge,	bank reconcil	iations that	were reviewed v	vere performed timely.	
If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.									

I, the undersigned, certify that this statement is complete and accurate in all respects.								
We have enclosed the following: Enclosed Not Required (enter a brief justification)								
Financial Statements	Ä							
The letter of Comments and Recommendations	X							
Other (Describe)								
Certified Public Accountant (Firm Name)			Telephone Numbe	г				
Doeren Mayhew			248-244-3000					
Street Address		City	State	Zip				
755 W. Big Beaver			Troy	MI	48084			
Authorizing CPA Signature	ted Name	ed Name License Number						
Jan 4. Tayle	ͺͺ	James Koepke			1101012623			



ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN

FINANCIAL STATEMENTS

JUNE 30, 2007

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Independent Auditor's Report

To the Board of Education of the Rochester Community School District, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund and the aggregate remaining fund information of the Rochester Community School District, Michigan as of June 30, 2007 and for the year then ended, which collectively comprise the School District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Rochester Community School District, Michigan's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund and the aggregate remaining fund information of the Rochester Community School District, Michigan as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 13 and page 42, respectively, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

DOEREN MAYHEW

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rochester Community School District, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated November 9, 2007 on our consideration of the Rochester Community School District, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

DOEREN MAYHEW

Sperm / Oplin

November 9, 2007 Troy, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The Rochester Community School District 63260 (the "School District") is a public school district in the State of Michigan. The School District resides in both Oakland and Macomb counties. The School District is steward over the education of more than 14,500 grade K-12 area students. In support of the educational programs offered, the School District employs approximately 2,000 employees and operates 13 elementary schools, four middle schools, three high schools, one alternative education high school and one adult education facility. The School District resides in a mostly urban area and is surrounded by areas of manufacturing, retail and recreation.

Management's Discussion and Analysis

This section of the Rochester Community School District, Michigan's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2007. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Rochester Community School District, Michigan financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances at year end and a long-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds - the General Fund, Debt Service Fund and Capital Projects Fund, with all other funds presented in one column as "other" funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and support organizations. The financial section of the annual report contains the following:

Using this Annual Report - Continued

Management's Discussion and Analysis (MD & A) (Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplementary Information)
Budgetary Information for the General Fund

Other Supplemental Information

Reporting the School District as a Whole - District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

These two statements report the School District's net assets, which is one way to measure the School District's financial health, or financial position. Over time, increases or decreases in the School District's net assets are indicators of whether its financial health is improving or deteriorating. Note that the real property, buildings, and land owned by the School District are valued at their purchase price less depreciation. Aged buildings will have a very low "value" and land does not appreciate or depreciate. This reporting meets all accounting standards but would not be considered an accurate appraisal, or market value.

The School District's goal is to provide education to students, not to generate profits as commercial entities do. Sound financial practices and prudent use of public funds protect the ability of the School District to provide a strong foundation for future operations. Beyond financial factors, the quality of the education provided, the School District's programs and initiatives, student learning, the safety of the schools and condition of physical plants should be considered to assess the overall health of the School District.

Reporting the School District as a Whole - District-wide Financial Statements - Continued

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics and food services. These activities are funded by property taxes, unrestricted state aid (foundation allowance revenue), and local, state and federal grants.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds, not the School District as a whole. Some funds are required by State law; however, the School District may establish funds to help it control and manage money for particular purposes (the Food Services and Athletics Funds are examples). The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the unreserved fund balances left at year end available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

The School District as an Agent

The School District is the agent for its student activity and support organization funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2007 and 2006:

Table I Rochester Community School District, Michigan Net Assets - Governmental Activities June 30, 2007 and 2006							
	2007	2006					
Assets							
Current and Other Assets	\$ 64,004,108	\$ 82,434,234					
Capital Assets		263,923,557					
Total Assets	338,413,420	346,357,791					
Liabilities							
Current Liabilities	39,785,460	42,173,839					
Long-term Liabilities	233,095,478	248,610,134					
Total Liabilities	272,880,938	290,783,973					
Net Assets							
Invested in Capital Assets, Net							
of Related Debt	34,756,602	10,444,576					
Restricted	3,265,967	1,911,380					
Unrestricted	27,509,913	43,217,862					
Total Net Assets	<u>\$ 65,532,482</u>	<u>\$ 55,573,818</u>					

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table II) of the School District's governmental activities is discussed below. The School District's net assets were \$65.5 million and \$55.6 million at June 30, 2007 and 2006, respectively. Capital assets, net of related debt totaling \$34.7 million, compares the original cost, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets of \$3.2 million are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets, \$27.5 million, was unrestricted.

The School District as a Whole - Continued

The \$27.5 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means overall available resources are slightly more then all of our noncapital liabilities (compensated absences, for example). We have only 16.0 percent of total government expenses available to fund unexpected costs. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year-to-year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table II), which shows the changes in net assets for the years ended June 30, 2007 and 2006.

Table II Rochester Community School District, Michigan Changes in Net Assets For the Years Ended June 30, 2007 and 2006								
Revenues								
Program Revenues								
Charges for services	\$ 5,319,695	\$ 9,100,644						
Operating grants and contributions	23,602,632	23,490,886						
General Revenues								
Property taxes	44,668,393	40,356,958						
State aid	100,059,599	97,338,198						
Other	<u>8,191,145</u>	4,139,405						
Total Revenues	181,841,464	174,426,091						
Expenses								
Instruction	74,658,529	84,692,752						
Support services	49,772,352	56,461,835						
Community services	3,529,644							
Food services	2,422,943	3,551,265						
Athletics	3,466,244	2,537,235						
Interest on long-term debt	12,047,082	12,508,576						
Depreciation (unallocated)	25,986,006	7,100,977						
Total Expenses	171,882,800	170,055,633						
Increase in Net Assets	\$ 9,958,664	<u>\$ 4,370,458</u>						

The School District as a Whole - Continued

As reported in the statement of activities, the cost of all of our governmental activities this year was \$171.9 million. Certain activities were partially funded from those who benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions. We paid for the remaining "public benefit" portion of our governmental activities with \$44.6 million in taxes, \$100.0 million in State foundation allowance, and with our other revenues (i.e., interest and general entitlements). The School District experienced an increase in net assets of \$9.9 million.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of the School District's operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with available state resources.

The School District's Funds

As the School District completed this year, the governmental funds reported a combined fund balance of \$45.7 million which is a decrease of \$14.1 million from last year. The primary reason for the decrease is due to expenditures on building projects of \$31.8 million in 2006-2007.

The School District budgeted to operate at "break even" for the year ended June 30, 2007. General Fund fund balance increased \$3.2 million. Significant elements impacting current year operations are discussed in the General Fund budgetary highlights below.

Our nonmajor funds, consisting of school lunch, athletics, early retirement and bookstores, as a group remained stable from the prior year.

The Debt Service Fund showed a fund balance increase of \$1.3 million from the prior year. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. The Debt Service Fund fund balance can only be used to pay debt service obligations.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted in June (a schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements).

General Fund revenues combined for a total of \$149.7 million which was \$0.1 million or 0.01 percent under budget. There were many variances from budget both over budget and under budget. This is \$4.1 million or 2.79 percent more than the previous year.

General Fund Budgetary Highlights - Continued

Local revenue sources were budgeted for \$29.8 million and exceeded budget by \$0.6 million or 1.97 percent. The main sources for the variances were: \$0.2 million due to increased rental revenues, \$0.2 million from Medicaid services reimbursement, \$0.1 million in interest that exceeded budget and \$0.1 million in school age care tuition that exceeded budget. Local revenues were 19.9 percent of total revenues.

Deferral of State categorical funding reduced revenues compared to a budget of \$105.7 million by (\$0.335) million or (0.3) percent. This was largely due to (\$0.150) million or (85) percent of middle school math funds remaining unspent and (\$0.128) million or (27) percent of unspent at risk funding remaining unspent. The math funding was new, an expenditure extension has been filed and remaining funds will be spent in 2007-2008. Also, the remaining at risk funding balance will be spent in the 2008 school year. State revenues were 70.4 percent of total revenues.

Federal revenue sources budgeted for \$4.1 million, combined for an actual amount of (\$0.38) million, or (9.28) percent, under budget. This is due to grants issued but not fully expended. These grants allow for spending over a second year and the School District will not lose this funding. Federal revenues were \$3.7 million or 2.5 percent of total revenues.

County and other revenues are the county taxes and any loan and note proceeds. The budget was \$10.7 million. This category had a variance of less than \$10,000. Other revenues were 7.2 percent of total revenues.

General Fund expenditures during the year combined to create a savings of \$4.3 million, or 2.96 percent, of the budget. Staff purchased only what was necessary to meet operational needs and postponed improvements, maintenance, and some repairs that were not necessary for K-12 operations. Expenditures were budgeted for \$147.0 million, actual was \$143.0 million. This was 1.38 percent higher than the previous year at \$144.4 million.

In review of the expenditure categories in comparison to budget, salary costs were \$0.6 million, or 0.7 percent, less than budget. This is the largest category and actual expenditures of \$85.9 million were approximately 58.7 percent of total expenditures. This is 2.8 percent higher than the previous year.

The staff benefit budget is the next largest category. Benefits of \$39.1 million were \$1.8 million or 4.5 percent less than budget. The School District is self-funded for health benefits. In the winter our experience rate for health benefits was 16 percent above the prior year. Budget was increased to allow for the forecast expenditures at that level. By the time the bills were all collected for year end the actual increase was 10.45 percent. The additional budget capacity was not necessary. Total benefit costs were 26.7 percent of the annual General Fund expenditures and were 45.6 percent of the salary expenditures, this is an increase of 2.1 percent over the prior year. Salary and benefit expenditures together totaled \$125.0 million and equaled 85.4 percent of the General Fund expenditures.

General Fund Budgetary Highlights - Continued

The next category of expenditures is for paid professional services which cost \$4.5 million. The annual expenditures were \$0.6 million, or 11.2 percent, less than budget. There are multiple variances over and under budget. Two categories of this expenditure group make up over half of the savings: travel and conferences were \$0.2 million less than budget, and professional services were \$0.1 million less than budget. This group was 3.1 percent of the total General Fund expenditures.

Repairs and rental services costing \$1.8 million are the next category. As a group, the expenditures were \$0.16 million or 8.13 percent under budget. There are multiple variances over and under budget in this group. The largest savings was for \$0.1 million or 8.1 percent in the building repair budget. This group was 1.2 percent of all General Fund expenditures and was 5.4 percent less than the prior year's expenditures.

Supplies expenditures of \$8.0 million were \$0.8 million, or 8.9 percent, less than budget. This savings is again due to prudent spending by our schools and under spending on some categorical funding. Supplies were 5.5 percent of total General Fund expenditures. This was 6.23 percent higher than the previous year.

Capital expenditures for new equipment, vehicles, and furniture totaled \$1.1 million and were \$13,372, or 1.2 percent, less than budget. There are multiple variances in this group both over and under budget. This group was 0.8 percent of total General Fund expenditures and 68.0 percent less than the prior year because we did not purchase buses this year.

Debt and dues expenditures of \$1.0 million were \$37,510, or 3.6 percent, less than budget. All debt payments are required to be paid. There were multiple small budget variances. Debt and dues cost 0.7 percent of all General Fund expenditures and were 65.0 percent less than the prior year. This is largely due to removal of the \$1.5 million payment for Downtown Development Authority Funds to the State that were paid off in the prior year.

Transfer expenditures of \$5.0 million were \$0.5 million, or 9.0 percent under budget. Transfers are made from the General to the Athletics and Early Retirement Fund in order to fund those operations and commitments. The variance was due to the estimate of an accounting change and the estimated increase in benefits for the Athletics Fund. The estimated amounts were not needed and the balance of the transfer was reversed. Transfers were 3.4 percent of total General Fund expenditures and 10.5 percent higher than last year.

Prudent choices and operations by the School District staff in 2006-2007 resulted in an increase in fund balance of \$3.2 million for an ending General Fund balance of \$33.3 million, which is 22.1 percent of the 2006-2007 expenditure budget. After consideration of all necessary reserves and designations of fund balance, the year-end undesignated fund balance is \$22.3 million, or 14.7 percent, of the expenditure budget.

General Fund Budgetary Highlights - Continued

The School District anticipates continued increases in health care and retirement benefit costs as well as fuel and utilities. The 2007-2008 per pupil funding has not yet been settled by the State. Due to the poor State economy, a flat amount or minimal increase in our per pupil funding is expected. The increase in General Fund balance, which resulted from 2006-2007 operations, has provided a more solid base for the School District to address continued financial challenges.

Asset and Debt Administration

Capital Assets

At June 30, 2007 and 2006, the School District had \$274.4 million and \$263.9 million, respectively, invested in a broad range of capital assets with an individual worth of \$5,000 or more, including land, buildings, furniture and equipment. This amount represents a net increase (including additions, deductions and depreciation) of approximately \$10.4 million from last year. Table III summarizes these assets (more detailed information is found in Note 5).

Table III Rochester Community School District, Michigan Capital Assets As of June 30, 2007 and 2006								
	2007	2006						
Land	\$ 9,144,814	\$ 9,144,814						
Buildings and improvements	274,053,526	260,198,370						
Furniture and equipment	4,471,152	5,264,560						
Buses and other vehicles	8,327,749	8,171,706						
Construction-in-progress	40,957,567	<u>37,722,001</u>						
Total capital assets	336,954,808	320,501,451						
Less accumulated depreciation	62,545,496	<u>56,577,894</u>						
Net capital assets	<u>\$274,409,312</u>	<u>\$263,923,557</u>						

Asset and Debt Administration - Continued

Debt

At the end of this fiscal year, the School District had \$233.4 million in bonds outstanding versus \$246.2 million in the previous year. These bonds consisted of the following:

Bond Issue	Bonds Outstanding
1993 Refunding	\$ 10,465,000
1997 Bond Issue	21,675,000
2000 - Series I	16,000,000
2000 - Series II	4,475,000
2004 Refunding	106,900,000
2004 Bond Issue	53,595,000
2005 Bond Issue	20,335,000
Total bonds outstanding	<u>\$233,445,000</u>

The 2005 Bond Issue is an advance refunding of a portion of the bond in the 2000 Series II. All of the above bonds are general obligation bonds. The State limits the amount of bonded indebtedness that school districts can issue to 15% of the assessed value of all its taxable property. This amount is significantly below the \$731 million statutorily imposed limit.

Other obligations include accrued vacation pay, sick and terminal leave, early retirement incentives, and health and workers' compensation amounts. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Factors Bearing on the District's Future

Our elected school board and administration consider many factors when setting the School District's fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2008 fiscal year will be 25 percent of the February 2007 student full time equivalent count and 75 percent of the September 2007 student full time equivalent count. The budget is adopted in June 2007 for the 2007-2008 school year based upon an estimated number of students that will be enrolled in September 2007 on the count date.

Factors Bearing on the District's Future - Continued

Approximately 80 percent of the total General Fund revenues are from the foundation allowance and the taxes collected locally based upon the state funding formula. Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, the School District funding is heavily dependent on the State's funding formula and the State's ability to fund public school operations.

Once the final student count and related per pupil funding is validated, state law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations. The State's fiscal year begins October 1st. Ideally, the State would have an approved budget well in advance of that date because the school fiscal calendar begins July 1st. However, at this time the State does not have an approved budget for the year and school districts do not know what our state funding allowance will be. The School District is operating and negotiating and making daily decisions without our most important piece of information, our state funding.

As in the past, the School District will modify the budgeted expenditures and operations as necessary to adjust for any state changes in our funding and assure that we operate with a budget that will result in adequate fund balance according to school board policy.

STATEMENT OF NET ASSETS JUNE 30, 2007

	Governmental <u>Activities</u>
Assets	
Cash and investments - unrestricted (note 3)	\$ 27,283,260
Cash on deposit with paying agent	2,214,566
Receivables	
Accounts receivable	314,499
Due from other governmental units	19,577,61 1
Inventories	257,755
Prepaid expenses and other	609,317
Cash and investments - restricted (note 9)	13,747,100
Capital assets, net of accumulated depreciation (note 5)	274,409,312
Total assets	338,413,420
Liabilities	
Accounts payable	5,375,507
Accrued payroll and benefits	13,539,968
Due to other governmental units	244
Deferred revenue (note 4)	1,101,024
Long-term liabilities (note 7)	
Bonds and contracts payable - due within one year	15,805,271
Compensated absences - due within one year	3,963,446
Bonds and contracts payable - due in more than one year	223,847,439
Compensated absences - due in more than one year	9,248,039
Total liabilities	272,880,938
Net Assets	
Invested in capital assets, net of related debt	34,756,602
Restricted for debt service	3,265,967
Unrestricted	27,509,913
Total net assets	\$ 65,532,482

See accompanying notes to financial statements

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007

				Program	Rev	enues		overnmental Activities et (Expenses)
	Expenses		Charges for Services		Operating Grants and Contributions		Revenues and Change in Net Assets	
Functions/Programs								
Governmental activities								
Instruction	\$	74,658,529	\$	#	\$	15,946,731	\$	(58,711,798)
Support services		49,772,352		1,587,748		6,834,313		(41,350,291)
Food services		3,529,644		2,916,910		821,588		208,854
Athletics		2,422,943		815,037		-		(1,607,906)
Community services		3,466,244		-		-		(3,466,244)
Interest on long-term debt		12,047,082		-		-		(12,047,082)
Depreciation (unallocated)	_	25,986,006			_		_	(25,986,006)
Total governmental activities	\$	171,882,800	\$	5,319,695	\$	23,602,632	((142,960,473)
General revenues								
Taxes								
Property taxes, levied for general purpose								18,763,763
Property taxes, levied for debt service								25,904,630
State aid not restricted to specific purposes								100,059,599
Interest and investment earnings								2,797,519
Other							_	5,393,626
Total general revenues							_	152,919,137
Change in Net Assets								9,958,664
Net Assets - July 1, 2006								55,573,818
Net Assets - June 30, 2007							\$	65,532,482

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2007

ASSETS

Cash and investments (noite 3)			General Fund		Pebt Service Fund	P1	Capital rojects Fund		Other Nonmajor overnmental Funds	.Go	Total overnmental Funds
Receivables		\$	25,405,804	.\$	3,248,906	\$.	10,498,194	*5	1,877,456	\$	41,030,360
Counts receivable 234,398 76,185 3,916 314,499 19,446,165 5 13,146 19,577,511 19,470 19,470 19,470 19,470 11,977,511 19,470 11,977,511 19,470 11,977,511 11,977,51			2,214,566		-		-		-		2,214,566
Due from other governmental units 19,446,165 59,210 5,902 5,509 70,702 Inventories 159,450 11,139 1,527 1,2305 442,021 Total assets 247,925,123 3,3263,667 5,105,7596 5,2140,518 5,6390,751 Call assets 1,405,732 1,139 1,527 2,305 442,021 Call assets 1,405,732 1,139 1,575,796 5,2140,518 5,6390,751 Call assets 1,405,762 5,000 5,000 5,000 5,000 Call assets 1,405,764 5,000 5,000 5,000 Call assets 1,405,766 5,000 5,000 Call assets 1,405,766 5,000 5,000 5,000 Ca											
Due from other funds (note 6)			-		-		76,185				• .
159,457 1,000 1,159 1,27 2,305 442,021 1,159 1,27 2,305 442,021 1,159 1,27 2,305 442,021 1,159 1,157 1,159 1,27 2,305 1,150	•		• •				-				
Total assets	and the second of the second o				5,902		-				•
Total assets			•		-		-		-		•
Liabilities Caccumts payable S	Prepaid expenses and other		405,530		11,159		1,527		23,805		442,021
Capacita	Total assets	<u>s</u>	47,925,123	<u>\$</u>	3,265,967	\$	10,575,906	\$	2,140,518	<u>\$</u>	63,907,514
Accounts payable \$ 1,908,769 \$ - \$ 1,016,137 \$ 32,217 \$ 2,957,123 Accrued payroll and other liabilities \$ 11,605,367 \$ - \$ 8,805 \$ 11,614,172 Retainage payable \$ - \$ 2,467,403 \$ - \$ 2,467,403 \$ Due to other funds (note 6) \$ 11,492 \$ - \$ 172 \$ 10,019 \$ 21,663 \$ Deferred revenue (note 4) \$ 1,050,154 \$ - \$ 3,483,712 \$ 100,19 \$ 21,663 \$ Deferred revenue (note 4) \$ 1,050,154 \$ - \$ 3,483,712 \$ 102,153 \$ 18,161,649 \$ Pund Balances \$ 521,281 \$ - \$ 50,870 \$ 1,101,024 \$ Pund Balances \$ 521,281 \$ - \$ 98,305 \$ 257,800 \$ 18,000,000 \$ 18,000,000 \$ 2,214,566 \$ - \$ 98,305 \$ 257,800 \$ 18,000,000 \$ 2,214,566 \$ - \$ 98,305 \$ 257,800 \$ 18,000,000 \$ 2,214,566 \$ - \$ 98,305 \$ 257,800 \$ 18,000,000 \$ 2,214,566 \$ - \$ 98,305 \$ 257,800 \$ 18,000,000 \$ 2,214,566 \$ - \$ 98,305 \$ 257,800 \$ 18,000,000 \$ 2,214,566 \$ - \$ 98,305 \$ 257,800 \$ 18,000,000 \$ 2,014,566 \$ - \$ 98,305 \$ 257,800 \$ 18,000,000 \$ 2,014,566 \$ - \$ 98,305 \$ 257,800 \$ 18,000,000 \$ 2,014,566 \$ - \$ 7,082,194 \$ 23,805 \$ 7,115,999 \$ 26,590 \$ 26			LIABILITIES	AND	FUND BALANC	CES					
Accounts payable \$ 1,908,769 \$ - \$ 1,016,137 \$ 32,217 \$ 2,957,123 Accrued payroll and other liabilities \$ 11,605,367 \$ - \$ 8,805 \$ 11,614,172 Retainage payable \$ - \$ 2,467,403 \$ - \$ 2,462,403 Due to other governmental units \$ 2 \$ - \$ 172 \$ 10,019 \$ 21,663 Due to other funds (note 6) \$ 11,492 \$ - \$ 172 \$ 10,019 \$ 21,663 Due to other funds (note 6) \$ 10,001,154 \$ - \$ 100,019 \$ 21,663 Due for differ funds (note 6) \$ 10,001,154 \$ - \$ 100,019 \$ 21,663 Due for differ funds (note 6) \$ 10,001,154 \$ - \$ 3,483,712 \$ 102,153 \$ 18,161,649 \$ 10,001,154 \$ - \$ 3,483,712 \$ 102,153 \$ 18,161,649 \$ 10,001,154 \$ - \$ 3,483,712 \$ 102,153 \$ 18,161,649 \$ 10,001,154 \$ - \$ 10,001,154 \$ - \$ 10,001,154 \$ 10,001,154 \$ - \$ 10,001,154 \$ 10,0	Lighilities										
Accrued payroll and other liabilities 11,605,367 - 2,467,403 - 2,4	_	s	1.908.769	S	_	\$	1,016,137	*	32 517	s	2 957 123
Retainage payable - 2,467,403 - 2,467,403 Due to other governmental units 2 - 172 10,019 21,683 Due to other funds (note 6) 11,492 - 172 10,019 21,683 Deferred revenue (note 4) 1,050,154 - - 50,870 1,101,024 Total liabilities 14,575,784 - 3,483,712 102,153 18,161,649 Total liabilities 159,485 - - - 821,281 10,000,000 10		-	****	•	_	Ψ	19/1//10/	•		φ	
Due to other governmental units 2 1.492 244					_		2 467 403				
Due to other funds (note 6) 11,492 10,019 21,683 1,0019			2:		_		-				
Total liabilities 1,050,154 - 50,870 1,101,024	<u>-</u>				_		177				:
Total liabilities 14,575,784 - 3,483,712 102,153 18,161,649	· · · · · · · · · · · · · · · · · · ·		•				-		•		•
Fund Balances Reserved for	Total liabilities		14.575.784				3.483.712		102.153		<u> </u>
Reserved for Encumbrances 821,281 - 98,305 257,801	·		an and the second				-*:*:		202,200		
Encumbrances 821,281 -											
Inventories 159,495 - 98,305 257,800 Insurance escrow 2,214,566 2,214,566 Prepaid expenses 466,530 405,530 Capital projects - 7,092,194 23,805 7,115,999 Debt payment - 3,265,967 3,265,967 Unreserved Designated for Health care benefits 1,708,786 1,708,786 Account carryover 371,570 371,570 Subsequent year expenditures 5,443,059 5,443,059 Self-funded sports programs 26,559 26,559 Early retirement benefits 1,463,644 Undesignated General fund 22,225,052 1,463,644 Undesignated General fund 22,225,052 42,225,052 Special revenue funds 426,052 426,052 Total fund balances 33,349,339 3,265,967 7,092,194 2,038,365 45,745,865			821.281		_		_		_		921.281
Insurance escrow 2,214,566 Prepaid expenses 465,530 405,530 Capital projects 7,092,194 23,805 7,115,999 Debt payment - 3,265,967 3,265,967 Unreserved Designated for Health care benefits 1,708,786 1,708,786 Account carryover 371,570 371,570 Subsequent year expenditures 5,443,059 5,443,059 Self-funded sports programs 26,559 26,559 Early retirement benefits 1,463,644 Undesignated General fund 22,225,052 22,225,052 Special revenue funds 33,349,339 3,265,967 7,092,194 2,038,365 45,745,865 Total liabilities and fund					-		_		98.305		
Prepaid expenses 405,530 - 405,530 Capital projects - 7,092,194 23,805 7,115,999 Debt payment - 3,265,967 - 3,265,967 Unreserved - - - 3,265,967 Unreserved - - - 1,708,786 Designated for - - - 1,708,786 Account carryover 371,570 - - 371,570 Subsequent year expenditures 5,443,059 - - 5,443,059 Self-funded sports programs - - 26,559 26,559 Early retirement benefits - - 1,463,644 1,463,644 Undesignated - - - 22,225,052 Special revenue funds - - - 22,225,052 Total fund balances 33,349,339 3,265,967 7,092,194 2,038,365 45,245,865			-		_		_		•		•
Capital projects - 7,092,194 23,805 7,115,999 Debt payment - 3,265,967 - - 3,265,967 Unreserved Designated for Health care benefits 1,708,786 - - - 1,708,786 Account carryover 371,570 - - - 371,570 Subsequent year expenditures 5,443,059 - - - 5,443,059 Self-funded sports programs - - - 26,559 26,559 Early retirement benefits - - - 1,463,644 1,463,644 Undesignated - - - 1,463,644 1,463,644 Undesignated - - - - 22,225,052 - - 22,225,052 Special revenue funds - - - 426,052 426,052 Total liabilities and fund - - - - - - - - - - <					_		_		-		
Debt payment - 3,265,967 - 3,265,967 Unreserved	- ·		•		_		7.092.194		23.805		•
Unreserved Designated for Health care benefits 1,708,786 1,708,786 Account carryover 371,570 371,570 Subsequent year expenditures 5,443,059 5,443,059 Self-funded sports programs 26,559 26,559 Early retirement benefits 1,463,644 Undesignated General fund 22,225,052 22,225,052 Special revenue funds 426,052 426,052 Total fund balances 33,349,339 3,265,967 7,092,194 2,038,365 45,745,865	• • •		-		3.265.967		, 1032/25/2				
Designated for Health care benefits 1,708,786 - 1,708,786 Account carryover 371,570 - 371,570 Subsequent year expenditures 5,443,059 - - 5,443,059 Self-funded sports programs - 26,559 26,559 26,559 Early retirement benefits - - 1,463,644 1,463,644 Undesignated General fund 22,225,052 - - 72,225,052 Special revenue funds - 426,052 426,052 426,052 Total fund balances 33,349,339 3,265,967 7,092,194 2,038,365 45,745,865 Total liabilities and fund					,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,						2,224,74
Health care benefits											
Account carryover 371,570 371,570 Subsequent year expenditures 5,443,059 5,443,059 Self-funded sports programs 26,559 26,559 Early retirement benefits 1,463,644 1,463,644 Undesignated General fund 22,225,052 72,225,052 Special revenue funds 426,052 426,052 Total fund balances 33,349,339 3,265,967 7,092,194 2,038,365 45,745,865			1,708,786		_		_		_		1.708.786
Subsequent year expenditures 5,443,059 - 5,443,059 Self-funded sports programs - - 26,559 26,559 Early retirement benefits - - 1,463,644 1,463,644 Undesignated Ceneral fund 22,225,052 - - 22,225,052 Special revenue funds - - 426,052 426,052 Total fund balances 33,349,339 3,265,967 7,092,194 2,038,365 45,745,865 Total liabilities and fund	Account carryover				-44		_		_		
Self-funded sports programs - - 26,559 26,559 Early retirement benefits - - 1,463,644 1,463,644 Undesignated Ceneral fund 22,225,052 - - 22,225,052 Special revenue funds - - 426,052 426,052 Total fund balances 33,349,339 3,265,967 7,092,194 2,038,365 45,745,865 Total liabilities and fund	•				-		_		_		
Early retirement benefits 1,463,644 1,463,644 Undesignated General fund 22,225,052 - 72,225,052 Special revenue funds 426,052 426,052 Total fund balances 33,349,339 3,265,967 7,092,194 2,038,365 45,745,865 Total liabilities and fund					_		_		26,559		
Undesignated General fund 22,225,052 - 72,225,052 Special revenue funds - 426,052 426,052 Total fund balances 33,349,339 3,265,967 7,092,194 2,038,365 45,745,865 Total liabilities and fund			-		_		_		•		
Special revenue funds - 426,052 426,052 Total fund balances 33,249,339 3,265,967 7,092,194 2,038,365 45,745,865 Total liabilities and fund									,,		••
Special revenue funds - 426,052 426,052 Total fund balances 33,249,339 3,265,967 7,092,194 2,038,365 45,745,865 Total liabilities and fund	₩ •.		22,225,052		_		_		<u>.</u> .		22,225,052
Total liabilities and fund	Special revenue funds								426,052		
	Total fund balances		33,349,339		3,265,967		7,092,194		2,038,365		45,745,865
		\$	47,925,123	\$	3,265,967	.\$	10,575,906	\$	2,140,518	5	63,907,514

See accompanying notes to financial statements

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE TO GOVERNMENTAL NET ASSETS JUNE 30, 2007

Total fund balances - governmental funds

\$ 45,745,865

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported as assets in the funds:

Cost of capital assets	338,334,229
Accumulated depreciation	(63,660,802)
Loss on disposal of capital assets	(264,115)

Deferred bond issue costs recorded as an asset in the governmental activities - net of amortization

167,296

Long-term liabilities are not due and payable in the current period and are not reported as liabilities in the funds:

Bonds and notes payable	(239,652,710)
Compensated absences	(13,211,485)

Accrued interest payable is not included as a liability in the governmental funds

(1,925,796)

Total net assets - governmental activities

\$ 65,532,482

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2007

	_	General Fund		lebt Service Fund	<u></u>	Other Nonmajor Capital Governmental Go Projects Fund Funds		Total overnmental Funds		
Revenues										
Local sources	\$	29,837,917	\$	26,418,156	\$	1,056,094	\$	3,887,992	\$	61,200,159
State sources		105,361,409		-		÷		183,651		105,545,060
Federal sources		3,713,510		÷		-		637,937		4,351,447
Interdistrict and other sources		10,744,798				-			_	10,744,798
Total revenues		149,657,634		26,418,156		1,056,094		4,709,580		181,841,464
Expenditures										
Current										
Instruction		82,387,655		-		-		-		82,387,655
Support services		56,402,919		-		-		-		56,402,919
Community services		3,466,244		-		-		-		3,466,244
Payments to public schools		10,100		-		-		-		10,100
Early retirement		-		-		-		1,455,052		1,455,052
Food services		-		-		-		3,529,644		3,529,644
Bookstores		-		-		-		114,722		114,722
Athletics		-		-		+		2,422,943		2,422,943
Debt service										
Principal		773,059		12,790,000		-		-		13,563,059
Interest		45,105		12,109,459		-		-		12,154,564
Other		-		164,110		1,309,884		-		1,473,994
Capital outlay						18,903,098		<u> </u>	-	18,903,098
Total expenditures		143,085,082		25,063,569		20,212,982		7,522,361		195,883,994
Excess of Revenues Over (Under)										
Expenditures		6,572,552		1,354,587		(19,156,888)		(2,812,781)		(14,042,530)
Other Financing Sources (Uses)										
Proceeds from sale of capital assets		8,800		-		-		-		8,800
Operating transfers - in (note 6)		-		-		-		3,337,610		3,337,610
Operating transfers - out (note 6)		(3,337,610)	_	<u>-</u>	_					(3,337,610)
Total other financing sources (uses)	_	(3,328,810)		<u> </u>				3,337,610		8,800
Net Change in Fund Balances		3,243,742		1,354,587		(19,156,888)		524,829		(14,033,730)
Fund Balances - July 1, 2006		30,105,597		1,911,380		26,249,082	_	1,513,536	_	59,779,595
Fund Balances - June 30, 2007	<u>\$</u>	33,349,339	<u>s</u>	3,265,967	\$	7,092,194	<u>\$</u>	2,038,365	<u>\$</u>	45,745,865

See accompanying notes to financial statements

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007

Total net change in fund balances - governmental funds	\$ (14,033,730)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Depreciation expense	(7,082,908)
Capital outlays subject to capitalization	17,832,778
Governmental funds report proceeds from the sale of assets as revenue; in the	
statement of activities, these are recorded net of the carrying value of	
disposed assets	(264,115)
Accrued interest is recorded in the statement of activities when it is incurred;	
It is not reported in governmental funds until it is paid	107,482
Repayment of bond and note principal is an expenditure in the governmental	
funds, but not in the statement of activities (where it reduces long-term debt)	13,517,954
Decreases in payroll-related compensated absences and arbitrage obligations are	
reported as expenditures when financial resources are used in the governmental	
funds	(415,164)
Amortization of bond premium in the statement of activities	308,317
Amortization of bond issue costs in the statement of activities	 (11,950)
Change in net assets - governmental activities	\$ 9,958,664

STATEMENT OF ASSETS AND LIABILITIES FIDUCIARY FUNDS JUNE 30, 2007

Assets

Cash and investments (note 3) Due from other funds	\$	735,955 1,726
Total assets	<u>\$</u>	737,681
Liabilities		
Accounts payable	\$	26,825
Due to other support organizations		23,515
Due to other governmental units		691
Due to other funds		686,650
Total liabilities	\$	737,681

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

Note 1 - Significant Accounting Policies

The accounting policies of the Rochester Community School District, Michigan (the School District) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies used by the School District:

A. Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on application of the criteria, the entity does not contain any component units.

B. District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Substantially all interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the School District's government-wide activities are considered governmental activities.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

Note 1 - Significant Accounting Policies - Continued

B. <u>District-wide and Fund Financial Statements</u> - Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, although the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-wide Financial Statements

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The effect of interfund activity has been substantially eliminated from the districtwide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

Note 1 - Significant Accounting Policies - Continued

C. <u>Measurement Focus, Basis of Accounting and Financial Statement Presentation</u> - Continued

Fund-based Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as required under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, retirement-related payments and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are custodial in nature (assets equal liabilities) and do not report the measurement of results of operations.

The School District reports the following major governmental funds:

The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

Note 1 - Significant Accounting Policies - Continued

C. <u>Measurement Focus, Basis of Accounting and Financial Statement Presentation</u> - Continued

Fund-based Financial Statements - Continued

The Debt Service Fund is used to record tax, interest, and other revenue for payment of interest, principal, refunding of debt, and other expenditures on the School District's bond issues. The fund accounts for debt service payments for the 1993 Refunding, 1997, 2000 Series I and II, 2004 Refunding Bonds, 2004 Building and Site Building Bond and the 2005 Refunding Bond issues.

The Capital Projects Fund is used to record bond proceeds and other revenue and the disbursement of money specifically designated for acquiring new school sites, constructing buildings or additions, purchasing buildings, equipping, and for remodeling. These funds operate until the purpose for which they were created is accomplished. Defined bond issues within the Capital Projects Fund include the 2000 Series I Bond Issue, the 2000 Series II Bond Issue (issued November 2001) and the 2004 Building and Site Bond Issue. In addition, the fund records certain public improvement activities.

Additionally, the School District reports the following nonmajor governmental fund types:

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Funds include the Food Services, Athletics, Bookstores and Early Retirement Funds. Any operating deficit generated by these activities is the responsibility of the General Fund.

The Fiduciary Funds are the Student Activities Fund and Support Organizations Fund whose funds are not available for use by the School District.

Special Items include transactions within the control of management that are either unusual in nature or infrequent in occurrence which are reported as special items in the statement of activities.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

Note 1 - Significant Accounting Policies - Continued

D. Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. The School District has funds on deposit with its third-party administrators in accordance with self-insurance requirements.

Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds".

The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts has been recorded. Property taxes are assessed on July 1st for taxes due August 15th and December 1st. Taxes are considered delinquent on March 1st of the following year at which time penalties and interest are assessed and the total obligation is added to county tax rolls. Local tax units fully fund the School District for real property taxes. Any receivables for personal property taxes are not material to the School District's financial statements and are not recorded in the financial statements.

Inventories and Prepaid Items

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. The United States Department of Agriculture commodities inventory received by the Food Services Fund is recorded as an expenditure and recognized as revenue annually.

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

Note 1 - Significant Accounting Policies - Continued

D. Assets, Liabilities, and Net Assets or Equity - Continued

Restricted Assets

Unspent bond and public improvement proceeds and related interest on the Capital Projects Fund have legal requirements to be spent for specific building and building-related purposes and are restricted assets.

Capital Assets

Capital assets, which include land, buildings, equipment, construction-in-progress, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the School District as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have any infrastructure-type assets.

Buildings, improvements other than buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions 25 - 45 years
Buses and other vehicles 6 years
Furniture and other equipment 5 - 15 years

Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual vacation, termination and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

Note 1 - Significant Accounting Policies - Continued

D. Assets, Liabilities, and Net Assets or Equity - Continued

Risk Obligations

The School District is self-insured regarding both workers' compensation and health insurance. Long-term debt includes the calculated amount of possible claimed and unclaimed amounts for the period based on history of the School District and other similar institutions. These obligations are recognized in the governmental funds when they become due for payment.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and are amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as Capital Projects Fund expenditures.

The School District offers an early retirement benefit. The known cost of future employee benefits is included with long-term debt.

Nonvoted debt with a payment period of over 12 months and current value of arbitrage payable to the Internal Revenue Service are also included in long-term debt.

Compensated absences and early retirement obligations are recognized in the governmental funds when they become due for payment.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

Note 1 - Significant Accounting Policies - Continued

D. Assets, Liabilities, and Net Assets or Equity - Continued

Fund Equity

In the fund financial statements, governmental funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 - Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles in the United States of America for the General Fund, Special Revenue Funds, and Debt Service Fund. State law does not require the School District to adopt a budget for the Debt Service Fund. All annual appropriations lapse at the fiscal year end. Capital project budgets are approved at the time of bond issue for the life of the bond.

Annually, budget balances are estimated and entered for the specific bond issues and projects.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. Budget transfers between functions may not exceed \$100,000 without board approval. State law requires the School District to have its budget in place by July 1st. Expenditures in excess of amounts budgeted are a violation of Michigan law. Revenues may legally exceed budget. State law permits a district to amend its budgets during the year. The School District amended budgeted amounts during the year to reflect actual activity based on student enrollment and operations.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

Note 2 - Stewardship, Compliance and Accountability - Continued

Budgetary Information - Continued

Encumbrance accounting is employed in governmental funds. Encumbrances for purchase orders and contracts outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of the year end.

Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Capital Projects Fund Compliance

The Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. Outstanding bond issues include the 2000 Series I, 2000 Series II and the 2004 Building and Site Bonds. For these capital project activities, the School District has complied with the applicable provisions of Section 1351a of the State of Michigan's School Code. Beginning with the year of bond issuance, the School District has reported the annual construction activity in the Capital Projects Fund.

Note 3 - Deposits and Investments

State statutes authorize the School District to make deposits in the account of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The School District has designated 14 banks for the deposit of its funds.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

Note 3 - Deposits and Investments - Continued

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At year end, the School District's deposit balance of \$37,016,997 had \$36,916,997 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits fund and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is that risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District does not have a policy regarding credit risk. At June 30, 2007, the School District does not have investments with custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District does not have a policy restricting investment maturities. The School District minimizes interest rate risk by requiring the structuring of the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

Note 3 - Deposits and Investments - Continued

Credit Risk

State law limits investments in commercial paper to the top two rating issued by nationally recognized statistical rating organizations. The School District does not have a policy that addresses credit risk.

At year end, all investments were U.S. Government or Agency bonds or notes with a Standard & Poor rating of AAA. The description, fair value, and maturity of investments held at June 30, 2007 are as follows:

Name of Investment/Description		air Value	Maturity		
Federal Home Loan Bank	\$	1,755,209	8/15/07		
Federal Home Loan Bank		282,988	9/14/07		
Federal National Mortgage Association		1,758,186	7/15/07		
Federal National Mortgage Association		450,000	8/23/07		
Federal Home Loan Mortgage Corporation		996,500	9/14/07		
Total	\$	5,242,883			

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

Note 3 - Deposits and Investments - Continued

Concentration of Credit Risk

The School District places no limit on the amount it may invest in any one issuer. The School District does not have a policy that minimizes concentration of credit risk. More than 5 percent of the School District's investments were held in the following securities:

- Federal National Mortgage Association = 42.2%
- Federal Home Loan Bank = 38.8%
- Federal Home Loan Mortgage Corporation = 19.0%

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law prohibits investment in foreign currency.

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue consists of fees for services received prior to meeting spending restrictions or providing the related services.

	_ <u>U</u>	nearnea
Fees and receipts for 2007-2008 summer programs Grant, categorical aid, and other payments received prior	\$	738,051
to meeting all eligibility requirements		362,973
Total	<u>\$</u>	1,101,024

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

Note 5 - Capital Assets

Capital assets activity for the School District's governmental activities is reflected in the following table. Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

	Balance July 1, 2006	Additions	Reductions/ Disposals	Balance June 30, 2007
Assets not being depreciated:				
Land	\$ 9,144,814	\$ -	\$ -	\$ 9,144,814
Construction-in-progress	<u>37,722,001</u>	<u>17,292,982</u>	<u>(14,057,416</u>)	40,957,567
Total assets not being				
depreciated	46,866,815	17,292,982	(14,057,416)	50,102,381
Capital assets being depreciated:				
Buildings and improvements	251,683,729	9,826,317	(263,560)	261,246,486
Site improvements	8,514,641	4,292,399	(=0=,0 0,0)	12,807,040
Buses and other vehicles	8,171,706	156,043	_	8,327,749
Furniture and equipment	5,264,560	322,453	(1,115,861)	4,471,152
Subtotal	273,634,636	14,597,212	(1,379,421)	286,852,427
Accumulated depreciation:				
Buildings and improvements	44,917,951	5,447,300	(12,457)	50,352,794
Site improvements	3,566,686	453,773	-	4,020,459
Buses and other vehicles	4,914,222	905,760	_	5,819,982
Furniture and equipment	3,179,035	276,075	(1,102,849)	2,352,261
Subtotal	56,577,894	7,082,908	(1,115,306)	62,545,496
Net capital assets being depreciated	217,056,742	7,514,304	(264,115)	224,306,931
Net capital assets	<u>\$263,923,557</u>	<u>\$ 24,807,286</u>	<u>\$ (14,321,531</u>)	<u>\$274,409,312</u>

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

Note 5 - Capital Assets - Continued

Construction Commitments

The School District had multiple bond issues with active construction projects at year end. All bond issue proceeds are reserved to fund the projects and Capital Projects Fund balance reserves is expected to be adequate to complete all current projects. At year end, construction commitments totaled \$2,101,515. These commitments are included in the fund balance reserve of capital projects.

Note 6 - Interfund Receivables, Payables and Transfers

The composition of interfund balances is as follows:

Toro do Phos To	Funds Due From Nonmajor Governmental	•
Funds Due To	<u>Funds</u>	-
General Fund Nonmajor Governmental Funds	\$ 59,210 11,49:	
Total	<u>\$ 70,70</u> 2	2

The composition of interfund balances represents routine and temporary cash flow assistance from the General Fund. In addition, balances owed to the General Fund are a result of reimbursement for payroll liabilities that were transferred after year end.

	Transfers - Out <u>General Fund</u>
Transfers - in: Nonmajor Governmental Funds	<u>\$3,337,610</u>

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

Note 6 - Interfund Receivables, Payables and Transfers - Continued

The nature of interfund transfers represents amounts transferred between the General Fund and the nonmajor governmental funds during the year. The General Fund supports the activity of both the Athletics and Early Retirement Funds.

Note 7 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General Obligation Bonds are direct obligations and pledge the full faith and credit of the School District. Notes and installment purchase agreements are also general obligations of the School District. Other long-term liabilities include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity can be summarized as follows:

	Balance <u>[uly 1, 2006</u>	Additions Reductions		Balance I Reductions June 30, 2007	
Governmental Activities Bonds	\$ 246,235,000	\$ -	\$ 12,790,000	\$ 233,445,000	\$ 14,965,000
Plus bond premium deferral amounts	4,348,210		308,317	4,039,893	308,317
Total bonds payable	250,583,210	-	13,098,317	237,484,893	15,273,317
Notes payable Other obligations	2,895,771 12,796,320	863,123	727,954 447,958	2,167,817 13,211,485	531,954 3,963,446
Subtotal nonbond	15,692,091	<u>863,123</u>	1,175,912	15,379,302	<u>4,495,400</u>
Tötal long-term debt	<u>\$ 266,275,301</u>	\$ <u>863,123</u>	\$ 14,274,229	<u>\$ 252,864,195</u>	<u>\$ 19.768,717</u>

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

Note 7 - Long-Term Debt - Continued

The annual requirements to service the bonds outstanding to maturity, including both principal and interest, are as follows:

Year Ending June 30th:		Principal	_	Interest	_	Total
2008	\$	14,965,000	\$	11,487,571	\$	26,452,571
2009	•	14,405,000		10,766,651		25,171,651
2010		16,745,000		10,010,395		26,755,395
2011		18,410,000		9,142,664		27,552,664
2012 - 2016		98,760,000		31,461,200	;	130,221,200
2017 - 2021		68,300,000		7,823,225		76,123,225
2022	_	1,860,000	_	79,050	_	1,939,050
Total	<u>\$</u>	233,445,000	<u>\$</u>	80,770,756	<u>\$3</u>	314,215,756

General obligation bonds consist of the following:

Bond Issue	Original <u>Issue</u>	Principal Payment Range	Interest Range	Last Payment	Balance <u>June 30, 2007</u>
2005 Debt Refunding	\$ 20,910,000	\$ 85,000-\$ 1,935,000	3.00%-5.00%	2022	\$ 20,335,000
2004 Bond	60,570,000	\$ 750,000-\$ 4,600,000	3.00%-5.00%	2020	53,595,000
2004 Debt Refunding	107,560,000	\$ 215,000-\$13,615,000	2.00%-5.00%	2019	106,900,000
2000-Series II	28,630,000	\$ 100,000-\$ 1,900,000 ;	3.75%-5.00%	2011	4,475,000
2000-Series I	83,490,000	\$ 275,000-\$ 6,000,000	5.50%-5.60%	2010	16,000,000
1997 Bond	100,575,000	\$3,000,000-\$ 7,500,000 !	5.00%-5.875%	2019	21,675,000
1993 Debt Refunding	42,740,000	\$3,925,000-\$ 3,975,000 !	5.50%-5.625%	2011	10,465,000
Total bond debt					\$ 233,445,000

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

Note 7 - Long-Term Debt - Continued

Notes consist of the following:

<u>Note</u>		Original Issue	rincipal ayment	Last <u>Payment</u>		Balance ne 30, 2007
2006 buses Sheldon Road 2005 buses	\$	1,132,241 400,000 1,820,725	\$ 188,500 40,000 303,454	2011 2012 2011	\$	754,000 200,000 1,213,817
Total note	e debt				<u>\$</u>	2,167,81 <u>7</u>

Other governmental activities long-term obligations include the following:

Payroll-related long-term debt:	
Early retirement incentive	\$ 6,176,890
Sick leave	2,134,853
Terminal leave	724,97 0
Vacation	517,870
Health care	3,417,572
Workers' compensation	239,330

Total <u>\$ 13,211,485</u>

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

Note 8 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District participates in the Metropolitan Association for Improved School Legislation (MAISL) risk pool for claims relating to property loss, torts, and errors and omissions; the School District is self-insured for medical claims and workers' compensation. In all cases, the School District carries stop-loss coverage. Settled claims relating to the commercial insurance have not exceeded the amount of School District insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

For risk retention situations, the School District estimates the liability for workers' compensation and medical claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in long-term debt (in Note 7) until considered due, whereas the obligations then become governmental fund liabilities. Changes in the estimated liability are as follows:

Changes in health care estimated liability are as follows:

	_	2007	_	2006
Estimated liability - Beginning of year Estimated claims incurred, including changes	\$	2,705,660	\$	2,675,876
in estimates Claim payments	_	17,799,770 (17,087,858)	_	13,556,964 (13,527,180)
Estimated liability - Ending of year	<u>\$</u>	<u>3,417,572</u>	<u>\$</u>	2,705,660

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

Note 8 - Risk Management - Continued

Changes in workers' compensation estimated liability are as follows:

		2007		2006
Estimated liability - Beginning of year Estimated claims incurred, including changes	\$	206,654	\$	568,678
in estimates Claim payments		378,843 (346,167)		15,618 (377,642)
Estimated liability - Ending of year	<u>\$</u>	239,330	<u>\$</u>	206,654

Note 9 - Restricted Assets

The balances of the restricted cash and investment asset accounts are as follows:

	Total
Unspent bond proceeds and related interest Debt service funds	\$ 10,498,194 <u>3,248,906</u>
Total restricted assets	\$ 13,747,100

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), which is a cost-sharing multiple employer, state-wide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPSERS provides retirement, health, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the MPSERS. That report may be obtained by writing to the MPSERS at P.O. Box 30171, Lansing, Michigan 48909-7671.

Funding Policy

Employer contributions to MPSERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 16.34 percent and 17.74 percent of the covered payroll to the plan for the periods from July 1, 2006 through September 30, 2006 and October 1, 2006 through June 30, 2007, respectively. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS plan for the years ended June 30, 2007, 2006 and 2005 were \$15,465,272, \$13,901,587 and \$12,074,209, respectively.

In 2007, Section 147 of the State School Aid Act was amended to save the local and intermediate school districts money on retirement costs. The School District received a one time credit in the amount of \$2,612,025.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits - Continued

Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan are covered under the state benefit plan for health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

The School District sponsors various defined contribution postretirement benefit plans covering certain employees. Total contributions to these deferred compensation plans were \$653,654 for the year ended June 30, 2007.

Note 11 - Contingent Liabilities

Certain conditions may exist as of the date of the financial statements are issued, which may result in a loss to the School District but which will only be resolved when one or more future events occur or fail to occur. The School District's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceeds that are pending against the School District or unasserted claims that may result in such proceeding, the School District's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the School District's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

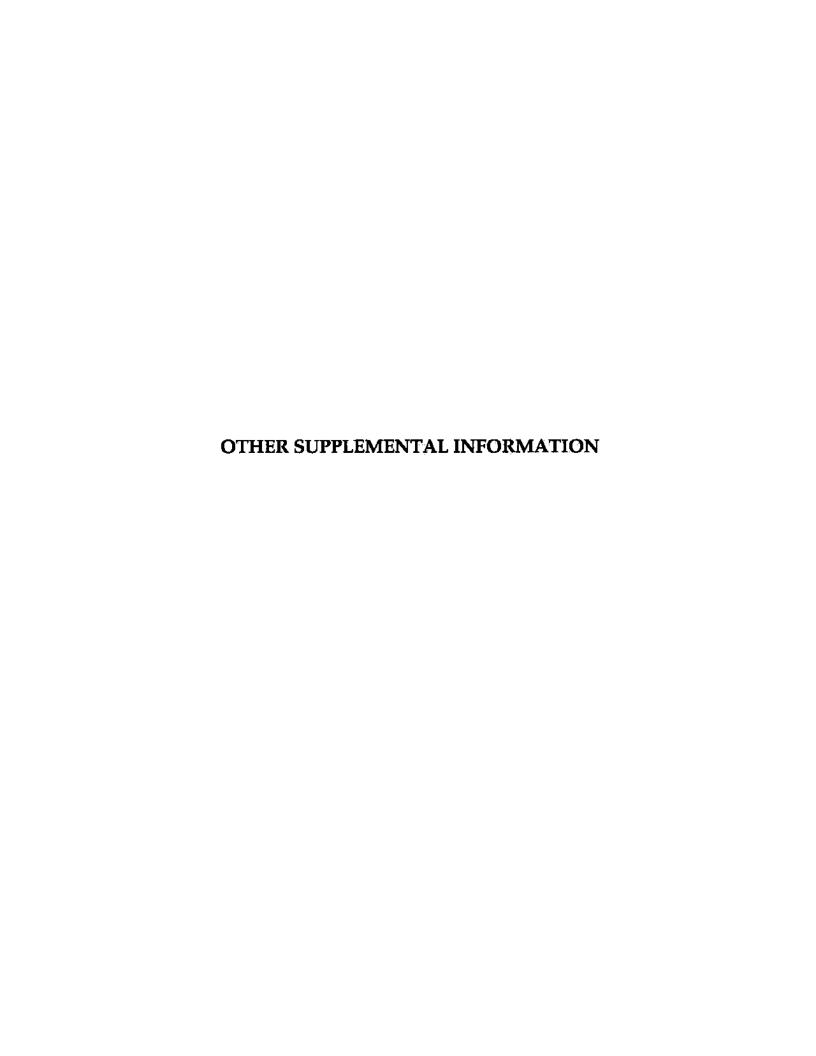
Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed.

REQUIRED SUPPLEMENTARY INFORMATION	

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2007

	Original Budget	Final Budget	Actual	Variance Over (Under) Final Budget
Revenues				
Local sources	\$ 24,933,013	3 \$ 29,260,440	\$ 29,837,917	\$ 577,477
State sources	108,847,16		105,361,409	(334,989)
Federal sources	4,734,17	* *	3,713,510	(379,969)
Other operating sources	10,269,37		10,744,798	5,203
Total revenues	148,783,72	7 149,789,912	149,657,634	(132,278)
Expenditures				
Instructional				
Basic programs	70,095,996	69,229,351	67,911,125	(1,318,226)
Added needs	15,687,447		14,373,555	(522,097)
Adult and continuing education	191,028		102,975	(17,889)
Total instructional	85,974,471	84,245,867	82,387,655	(1,858,212)
Supporting services				
Pupil services	12,997,210	13,689,337	13,312,920	(376,417)
Instructional support	6,653,800		5,979,911	(435,404)
General administration	1,168,233		949,556	(95,503)
School administration	6,955,452	** * **	6,811,564	(107,774)
Business support	1,992,032		1,629,427	(172,199)
Operation and maintenance	16,924,372	• • •	16,182,558	(367,684)
Pupil transportation	7,278,026		6,825,948	(237,414)
Central support	4,959,363		4,539,802	(373,053)
Other support	189,128		171,233	(15,294)
Total supporting services	59,117,616	58,583,661	56,402,919	(2,180,742)
Community services	3,368,533	3,419,818	3,466,244	46,426
Payments to other public schools	4,000		10,100	10,100
Other	770,842	819,166	818,164	(1,002)
Total expenditures	149,235,462	147,068,512	143,085,082	(3,983,430)
Other Financing Sources (Uses)				
Proceeds from sale of assets	38,000	7,000	8,800	(1,800)
Operating transfers - out	(3,521,055	(3,821,055)	(3,337,610)	(483,445)
Total other financing sources (uses)	(3,483,055	(3,814,055)	(3,328,810)	(485,245)
Net Change in Fund Balance	(3,934,790	(1,092,655)	3,243,742	4,336,397
Fund Balance - July 1, 2006	23,713,894	30,105,597	30,105,597	
Fund Balance - June 30, 2007	<u>\$ 19,779,104</u>	\$ 29,012,942	\$ 33,349,339	\$ 4,336,397

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OTHER SUPPLEMENTAL INFORMATION COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS JUNE 30, 2007

ASSETS

				Special Re	venue	Funds				
		School Lunch	Bc	okstores		Athletics		Early letirement	_	Total
Cash and investments	\$	320,190	\$	42,550	\$	51,072	\$	1,463,644	\$	1,877,456
Receivables		2.21.6								
Accounts receivable Due from other governmental units		2,316		-		1,600		-		3,916
Due from other funds		131,446 797		-		- 4.793		-		131,446
Inventories		63,470		30,172		4,793				5,590
Prepaid expenses and other		03/4/0		30,172		4,000		23,805		98,305 23,805
Treputa experies and other						 _	_	23,000	_	23 ₆ 093
Total assets	<u>.\$</u>	518,219	<u>\$</u>	72,722	\$	62,128	\$	1,487,449	\$	2,140,518
	LIA	ABILITIES :	AND I	UND BAL	ANCE	s				
Liabilities										
Accounts payable	\$	14,202	\$		\$	18,015	\$	-	\$	32,217
Accrued payroll and other liabilities	•	5,933	•		Ť	2,872		-	Ψ.	8,805
Due to other governmental units		116		126		-,		_		242
Due to other funds		-		_		10,019		-		10,019
Deferred revenue		50,870					_		_	50,870
Total liabilities		71,121		126		30,906		-		102,153
Fund Balances										
Reserved for										
Inventory		63,470		30,172		4,663		-		98,305
Prepaid expenses		-		-		-		23,805		23,805
Unreserved										
Designated for										
Self-funded sports programs		-		-		26,559				26,559
Early retirement benefits		-		40.404		-		1,463,644		1,463,644
Undesignated		383,628	•	42,424					_	426,052
Total fund balances		447,098		72,596		31,222	_	1,487,449	_	2,038,365
Total liabilities and										
fund balances	\$	518,219	\$	72,722	<u>\$</u>	62,128	\$	1,487,449	\$	2,140,518

OTHER SUPPLEMENTAL INFORMATION COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2007

		Special Revenue Funds								
		School Lunch	В	ookstores		Athletics		Early Retirement	_	Total
Revenues										
Local sources	\$	2,902,840	\$	106,072	\$	815,037	\$	64,043	\$	3,887,992
State sources		183,651		-		-		-		183,651
Federal sources	_	637,937	_		_	-	_		_	637,937
Total révenues		3,724,428		106,072		815,037		64,043		4,709,580
Expenditures										
Early retirement		_		-		-		1,455,052		1,455,052
Food services		3,529,644		-		-		-		3,529,644
Bookstores		_		114,722		-		_		114,722
Athletics			_			2,422,943		_		2,422,943
Total expenditures	_	3,529,644		114,722		2,422,943	_	1,455,052		7,522,361
Excess of Revenues Over (Under)										
Expenditures		194,784		(8,650)		(1,607,906)		(1,391,009)		(2,812,781)
Other Financing Sources (Uses)	_					1,604,956		1,732,654		3,337,610
Net Change in Fund Balances		194,784		(8,650)		(2,950)		341,645		524,829
Fund Balances - July 1, 2006		252,314		81,246	_	34,172		1,145,804	_	1,513,536
Fund Balances - June 30, 2007	\$	447,098	\$	72,5 9 6	\$	31,222	\$	1,487,449	\$:	2,038,365

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OTHER SUPPLEMENTAL INFORMATION SCHEDULE OF BONDED INDEBTEDNESS FOR THE YEAR ENDED JUNE 30, 2007

Year Ending June 30 th :	1	1993 Debt Refunding Principal	_	1997 Debt Principal		Sond 2000 - Series I Principal	_	Bond 2000 - Series II Principal	2004 Debt Refunding Principal		2004 Debt Principal	R	005 Debt efunding rincipal	Total
2008	\$	2,020,000	\$	3,300,000	\$.	4,825,000	\$	900,000	\$ 230,000	s	3,600,000	\$	90,000	\$ 14,965,000
2009		2,505,000		3,375,000		5,500,000		1,000,000	235,000		1,700,000		90,000	14,405,000
2010		2,985,000		-		5,675,000		1,275,000	3,698,000		3,025,000		95,000	16,745,000
2011		2,955,000		-		-		1,300,000	10,055,000		4,000,000		100,000	18,410,000
2012		-		-		-		-	13,440,000		4,470,000		1,500,000	19,410,000
2013		-		-		_		-	13,425,000		4,600,000		1,590,000	19,615,000
2014		-		-		-		-	13,395,000		4,600,000		1,675,000	19,670,000
2015		-		-		-		-	13,460,000		4,600,000		1,855,000	19,915,000
2016		-		-		-		-	13,615,000		4,600,000		1,935,000	20,150,000
2017		-		-		•		-	13,560,000		4,600,000		1,930,000	20,090,000
2018		-		7,500,000		-		-	5,935,000		4,600,000		1,920,000	19,955,000
2019		-		7,500,000		-		-	5,860,000		4,600,000		1,910,000	19,870,000
2020		*		-		_		-	_		4,600,000		1,900,000	6,500,000
2021		-		-		-		-	-		-		1,885,000	1,885,000
2022		-		-		-		-	_		-		1,860,000	1,860,000

Due date
Principal
payments
Due date
Interest
payments
Interest rates
Original issue
amount

1993 Debt	
Refunding	
· ·	
May 1	
"	
May 1 and	
November 1	
5.50%-5.625%	
\$ 42,740,000	

1997 Debt	Bot
127. 5-51.	H
May 1	Ŋ
May 1 and	Ma
November 1	Nov
.00%-5.875%	5.50
$\neg \neg$	
100,575,000	\$ 83

Bond 2000 -
Series I
May 1
May 1 and
November 1
5.50%-5.60%
\$ 83,490,000

Bond 2000 -
Series II
May 1
May 1 and
November 1
3.75%-5.00%
\$ 28,630,000

2004 Debt	
Refunding	
May 1	
way 1	
May 1 and	
November 1	
2.00%-5.00%	

	2005 Debt
2004 Debt	Refunding
May 1	May 1
May 1 and	May 1 and
November 1	November
3.00%-5.00%	3.00%-5.00%
60,570,000	\$ 20,910,00

\$ 444,475,000

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OTHER SUPPLEMENTAL INFORMATION SCHEDULE OF CAPITAL PROJECTS ACTIVITY FOR THE YEAR ENDED JUNE 30, 2007

	Public				
	Improvement	Bond 2000	Bond 2004	Total Funds	
Balance - July 1, 2006	\$ 420,513	\$ 710,926	\$ 25,117,643	\$ 26,249,082	
Revenues					
Interest	23,639	25,224	1,007,231	1,056,094	
Expenditures					
No location - banking fees	683	668	952	2,303	
ACE	-	-	479,330	479,330	
Adams	9,463	8,766	152,329	170,558	
Administration building	(3,465)	-,,-	391,611	388,146	
Adult Education - RACE	-	_	30,607	30,607	
Baldwin	-	(220)	189,988	189,768	
Brewster	_	253,223	23,031	276,254	
Brooklands	4,593	-	146,645	151,238	
Delta Kelly	12,141	_	(1,734)	10,407	
Facility operations	<u>-</u>	44,851	400,054	444,905	
Hamlin	3,784	31,741	106,532	142,057	
Hampton	3,813	(110)	186,366	190,069	
Hart	71,681	(110)	263,372	334,943	
Hugger	· -	`-	67,772	67,772	
Long Meadow	-	4,635	27,495	32,130	
McGregor	-	_	61,486	61,486	
Meadow Brook	-	_	11,847	11,847	
Musson	-	-	43,027	43,027	
North Hill	_	-	3,863	3,863	
Reuther	8,028	-	8,018,842	8,026,870	
Rochester	7,514	13,203	250,366	271,083	
Stoney Creek	34,272	•	319,108	353,380	
Transportation	<u> </u>	-	(39,214)	(39,214)	
University Hills	-	.=	2,112	2,112 [°]	
Van Hoosen	6,169	-	8,389,824	8,395,993	
West	6,169	4,029	161,850	172,048	
Total expenditures	164,845	360,676	19,687,461	20,212,982	
Balance - June 30, 2007	\$ 279,307	\$ 375,474	\$ 6,437,413	\$ 7,092,194	

ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN

SINGLE AUDIT REPORTING PACKAGE

JUNE 30, 2007



To the Board of Education of the Rochester Community School District, Michigan

We have audited the financial statements of the governmental activities, major funds, and the aggregate remaining fund information of the Rochester Community School District, Michigan, as of and for the year ended June 30, 2007, and have issued our report thereon dated November 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rochester Community School District, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the financial statements of the governmental activities, major funds, and the aggregate remaining fund information of the Rochester Community School District, Michigan are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

DOEREN MAYHEW

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

DOEREN MAYHEW

Joern Maylow

November 9, 2007 Troy, Michigan



To the Board of Education of the Rochester Community School District, Michigan

Compliance

We have audited the compliance of the Rochester Community School District, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. The Rochester Community School District, Michigan's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Rochester Community School District, Michigan's management. Our responsibility is to express an opinion on the Rochester Community School District, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Rochester Community School District, Michigan's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Rochester Community School District, Michigan's compliance with those requirements.

In our opinion, the Rochester Community School District, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

DOEREN MAYHEW

Internal Control Over Compliance

The management of the Rochester Community School District, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Rochester Community School District, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Rochester Community School District, Michigan. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the Rochester Community School District, Michigan. The combining and individual non-major fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specific parties.

DOEREN MAYHEW

Joen Hayler

November 9, 2007 Troy, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS JUNE 30, 2007

SECTION I

SUMMARY OF AUDITOR'S RESULTS	3		
Financial Statements			
Type of auditor's report issued:	Unqualified		
Internal control over financial reporting:			
Material weakness(es) identified?	Yes	X No	
Reportable condition(s) identified the considered to be material weakness	Yes	X None reported	
Noncompliance material to financial noted?	Yes	X No	
Federal Awards			
Internal control over major programs:			
Material weakness(es) identified?	Yes	X No	
Reportable condition(s) identified the considered to be material weakness	Yes	X No	
Type of auditor's report issued on commajor programs:	Unqualified		
Any audit findings disclosed that are req reported in accordance with Section Circular A-133?	•	Yes	X No
Identification of major programs:			
CFDA Number(s)	Name of Fe	ederal Program or Clu	ıster
10.550 84.010 84.027 and 84.173 84.367	USDA Donate Title I Special Educa Title IIA	ed Food Commodities tion Cluster	
Dollar threshold used to distinguish bet A and Type B programs:	ween Type	\$300,000	
Auditee qualified as low-risk auditee?		Yes	_X_ No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS JUNE 30, 2007

SECTION II

FINDINGS - FINANCIAL STATEMENTS AUDIT

None noted.

DOFREN MAYHEW

SCHEDULE FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2007

SECTION III

FINDINGS - FEDERAL AWARDS AUDIT

None noted.

SUMMARY OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2007

SECTION IV

FINDING - FEDERAL AWARDS AUDIT

Department of Education

Finding 02-1

Condition

During our testing, we noted that none of the employees, who worked on multiple Federal activities or cost objectives for the Title I program, had personnel activity reports or equivalent documentation to support the distribution of their salaries or wages.

Recommendation and Response

We recommended, and the Rochester Community School District, Michigan concurred, that during the school year, each employee who works on multiple Federal activities or cost objectives, will prepare and sign a personnel activity report or equivalent documentation which supports the distribution of their salaries or wages on at least a monthly basis.

Current Status

No similar findings were noted during the June 30, 2007 audit.

SUMMARY OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2007

SECTION IV - Continued

FINDING - FEDERAL AWARDS AUDIT

Department of Education

Finding 02-2

Condition

During our testing, we noted that a non-eligible school attendance area received Title I funds.

Recommendation and Response

We recommended, and the Rochester Community School District, Michigan concurred, that an eligible attendance area will be determined based on the concentration of low-income children being equal to or greater than the average for the District or for a grade span. Allocation of funds will be based on low-income counts starting with the highest poverty school, until funds are exhausted. Based on eligible school attendance areas, the minimum amount that must be allocated per low-income child is 125% of the funds received by the District for each low-income child in the District.

Current Status

The District appealed this finding by requesting to substitute actual expenditures which were allowable for the same period from another eligible school attendance area. This appeal was approved resulting in no loss of funding for the prior period. No similar findings were noted during the June 30, 2007 audit.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2007

Accrued (Deferred) Revenue at 6/30/07	\$ 16,564	16,564	85,120	85,120	101,684	75,001 1,269,882	1,344,883	5,195 53,126	58,321
Expenditures	\$ - 3.578	73,578	462,675	462,675	536,253	125,925	2,301,275	- 8,060 90,83 <u>1</u>	98,891
Current Year Receipts	\$ 2,485	59,499	9,420	386,975	446,474	276,195 1,150,459 905,468	2,332,122	10,982 51,005 37,705	269'66
Adjustments	cá	ı			,	1 1 1	•	t t a	ı
Prior Year Expenditures	909'02 \$	70,696	431,519	431,519	502,125	2,035,133	4,093,207	98,821	189,342
Accrued (Deferred) Revenue at 7/1/06	\$ 2,485	2,485	9,420	9,420	11,905	276,195	1,375,730	10,982	59,122
Program Award/ Amount	\$ 70,606	144,184	431,519	894,194	1,038,378	2,035,133 2,183,999 2,336,472	6,555,604	98,821 98,581 98,857	296,259
Federal CFDA Number	10.553		10.555			84.027		84.173	
Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number	Clusters: Child Nutrition Cluster - U.S. Department of Agriculture - Passed Through the Michigan Department of Education: National School Breakfast Program: 2005-2006 2006-2007	Total National School Breakfast Program	National School Lunch Program: 2005-2006 2006-2007	Total National School Lunch Program	Total Child Nutrition Cluster	Special Education Cluster - U.S. Department of Education - Pass Through Oakland County ISD: IDEA: Project number 50450 Project number 60450 Project number 70450	Total IDEA	Preschool Incentive: Project number 50460 Project number 60460 Project number 70460	Total Preschool Incentive

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2007

Accrued Current Year Adjustments Receipts Expenditures 6/30/07	\$ 527 \$ - \$	1,077 550	2,432,891 2,400,716 1,403,204	- 3,962 - 1,395 - 1,395 - 5,613	5,357 7,008 5,613	16,535 - 107,785 - 419,498 457,301 37,803
Prior Year Expenditures	\$ 527	527	4,283,076	5,392	5,392	16,535
Accrued (Deferred) Revenue at 7/11/06	527	527	1,435,379	3,962	3,962	16,535
Program Award/ Amount	\$ 550	1,160	6,852,963	1 1	•	16,535 452,960 504,404
Federal CFDA Number	84.027A -2006 -2007			93.778		84.010
Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number	Special Education Cluster - U.S. Department of Education - Pass Through Oakland County ISD - Continued: OISD Transition Grants: Project Name-Action Planning Phase 2005-2006 Project Name-Action Planning Phase 2006-2007	Total OISD Transition Grants	Total Special Education Cluster	Medicaid Cluster - U.S. Department of Health and Human Services - Pass Through Oakland County ISD: Medicaid Outreach Program: 2005-2006 2006-2007	Total Medicaid Cluster	Other Federal Awards: U.S. Department of Education: Passed Through the Michigan Department of Education: Title I: Project number 051530/0506 Project number 061530/0607

See Notes to the Schedule of Expenditures of Federal Awards

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2007

Accrued (Deferred) Revenue at	1	1	, ,	1	12,408	12,408	13,862	13,862
<u>Expenditures</u>	\$ 5,112	5,112	363 2,979	3,342	76,242	156,948	155,134 187,843	342,977
Current Year Receipts	\$ 5,112	5,112	5,897 2,97 <u>9</u>	8,876	126,338 80,706	207,044	113,698 215,022 173,981	502,701
Adjustments	· .	•	. ,	ı	1 1	ı		1
Prior Year Expenditures) 499.	•	5,534	5,534	103,913	103,913	113,698	254,583
Accrued (Deferred) Revenue at 7/1/06	n ea.	1	5,534	5,534	62,504	62,504	113,698	173,586
Program Award/ Amount	\$ 5,112	5,112	5,897 2,979	8,876	180,023 150,583	330,606	113,698 296,020 296,808	706,526
Federal CFDA Number	84.318		84.298		84.365A		84.367	
Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number	Other Federal Awards - Continued: U.S. Department of Education - Continued: Passed Through the Michigan Department of Education - Continued: Title II, Part D - Technology Literacy Challenge: Project number 074290/0607	Total Title II, Part D - Technology Literacy Challenge	Title V: Project number 060250/0506 Project number 070250/0607	Total Title V	Limited English - Title III - Limited English Proficiency: Grant 060580/0506 Grant 070580/0607	Total Title III	Improving Teacher Quality - Title IIA: 050520/0506 060520/0506 070520/0607	Total Title IIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2007

Accrued (Deferred) Revenue at 6/30/07	1,215	1,215	* * * 1 1	65,288	25,396	25,396
Expenditures	\$ 13,274 33,094	46,368	- - 64,000 21,100	85,100	69,526	69,526
Current Year Receipts	18,500 48,241 33,094	99,835	35,226 6,205 18,734 64,000 21,100	145,265	9,869 44,130	53,999
Adjustments	⊌2; 	r	, , , , ,			ı
Prior Year Expenditures	\$ 18,500 36,182	54,682	65,000 23,700 18,734	107,434	26,007	56,007
Accrued (Deferred) Revenue at 7/1/06	\$ 18,500 36,182	54,682	35,226 6,205 118,734	60,165	698'6	698'6
Program Award/ Amount	\$ 18,500 49,456 39,441	107,397	65,000 23,700 23,000 64,000 21,100	2,329,216	56,007 69,526	125,533
Federal CFDA Number	84.186		84.002		84.048A	
Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number	Other Federal Awards - Continued: U.S. Department of Education - Continued: Passed Through the Michigan Department of Education - Continued: Safe and Drug-free Schools and Communities: Project number 052860/0506 Project number 072860/0607 Project number 072860/0607	Total Safe and Drug-free Schools and Communities	Adult Basic Education: Project number 061130/610536 Project number 061120/6500115 Project number 051130/610536 Project number 071130/710537 Project number 071120/7500117	Total Adult Basic Education Total Noncluster Programs Passed Through the Michigan Department of Education	Carl Perkins Vocational Grant: Project number 063520/6012-18 Project number 073520/7012-18	Total Noncluster Programs Passed Through the Oakland County ISD

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2007

Accrued (Deferred) Revenue at 6/30/07	4 I	(38,120	38,120
Expenditures	\$ 101,684	101,684	- 64,053 75,06 <u>9</u>	139,112
Current Year Receipts	101,684	101,684	24,596 64,053 36,939	125,588
	.			
Adjustments	, . Фэ.	ı	, , ,	,
Prior Year Expenditures	, , sa	1	70,374	70,374
Accrued (Deferred) Revenue at 7/1/06	, , , ,	,	24,596	24,596 \$ 1,966,502
Program Award/ Amount	\$ 101,684	101,684	135,785 134,427 133,906	404,118
Federal CFDA Number	10,550		93.600	
Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number	Other Federal Awards - Continued: U.S. Department of Agriculture: Passed Through the Michigan Department of Education: Entitlement commodities - 2006-2007 Bonus commodities - 2006-2007	Total Passed Through the Michigan Department of Education	U.S. Department of Health and Human Services: Passed Through the Oakland Livingston Human Service Agency: Headstart: Project number 99019/0540 Project number 99019/0540 (7/06-12/06) Even Project number 99019/0540 (7/06-12/06) Odd	Total U.S. Department of Health and Human Services Noncluster Programs Total Federal Awards

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2007

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance and federal cost-reimbursement contracts of the Rochester Community School District, Michigan. Management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the annual cost reports. The Rochester Community School District, Michigan receives federal awards indirectly through pass-through entities.

Except for the current year receipts column, which is presented on the cash basis of accounting, federal program expenditures included in the accompanying schedule are presented on the modified accrual basis of accounting. The modified accrual basis of accounting is also used for the general purpose financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Inventory values are based on the USDA value for donated food commodities. Reported commodity receipts values were computed using the Recipient Entitlement Balance Report and other district records. Spoilage or pilferage, if any, is included in expenditures.

Note 2 - Major Programs

Major programs are identified in the Summary of Auditor's Results section of the Schedule of Findings and Questioned Costs.

Note 3 - Grant Section Auditor's Report

Management has utilized the Grant Section Auditor's Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards. The amounts on the R7120 are included on the Schedule of Expenditures of Federal Awards.

ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN

COMMENTS AND RECOMMENDATIONS MEMORANDUM

JUNE 30, 2007



November 9, 2007

Members of the Board of Education of the Rochester Community School District, Michigan 501 West University Drive Rochester, Michigan 48307

Dear Board Members:

We have recently completed an audit of the financial statements of the Rochester Community School District, Michigan for the year ended June 30, 2007. Our audit was made primarily for the purpose of expressing our opinion on these statements and, accordingly, did not encompass a detailed review of systems, procedures and internal controls.

We would like to compliment the business office for the excellent job that they have done this past year. We completed the audit with a minimum of adjustments and enjoyed working with your highly professional staff. However, during our audit, we observed certain areas where we believe improvements can be effected, and we offer the enclosed comments and recommendations memorandum for your review.

The accompanying memorandum is not based upon a complete survey of all phases of operating and executive controls; it does, however, direct attention to certain areas which we believe to be especially worthy of the Board's consideration. We appreciate that the ultimate objective of the Board of Education is to achieve maximum control at a minimum cost. We believe that consideration of the recommendations enumerated in this memorandum are compatible with that objective.

After you have reviewed our recommendations, we will be pleased to discuss the contents with you and to assist in the implementation or correction of any items set forth herein.

DOEREN MAYHEW

PRIOR YEAR COMMENTS AND RECOMMENDATIONS

Control Over Outstanding Checks

Findings:

During our audit procedures, we noted that the School District had recorded old outstanding checks as a liability.

Recommendation:

We recommend that the School District review these old outstanding checks as part of control over cash disbursements. These old outstanding checks should be investigated, adjusted for separately, and payment stopped at the bank, as necessary.

Status:

No change from the prior year.

Health Reimbursement Account Reconciliation

Findings:

During our audit, we noted that the School District did not receive accurate information from its third party administrator to support carryover balances in the health reimbursement liability account.

Recommendation:

We recommend that the School District implement procedures to ensure that accurate and timely information is received from its third party administrator.

Status:

A new report with more understandable information was obtained from the third party administrator at June 30, 2007.

Information Systems

The School District's business office is challenged with managing the financial and strategic information that are integral to meeting the goals and objectives of the School District. Today's information technology systems enable school districts to reach their objectives, manage their resources and control their security environment in an efficient, cost effective manner. Because of the limited personnel usually available to support the business functions in a school district, information technology is often utilized as a way to improve the control environment and provide greater security for the School District's information.

PRIOR YEAR COMMENTS AND RECOMMENDATIONS - Continued

Information Systems - Continued

Findings:

During our audit procedures, we noted that the School District's existing information systems do not provide the control, data availability, data integration or management reporting needed to enable the School District to operate efficiently. For example, upon occasion summary and detail reports do not agree indicating data integrity problems. In addition, various report capabilities are limited or require manual input and use of other programs increasing potential errors or inefficiencies. The information systems should enable the School District to secure critical information, have information readily available when needed and produce reliable, accurate reporting.

Recommendation:

The School District should develop a technology plan which addresses the School District's goals and objectives, its control environment, and its need for accurate, reliable, data management and reporting. This plan should include the evaluation and selection of an information system that will support the School District's goals and objectives and act as an enabler for the School District to efficiently, effectively and securely manage and report its data.

Status:

No change from the prior year.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

Signature Stamps

The School District has a policy that principals are required to approve purchases made by employees working in their school buildings.

Findings:

During our fraud interviews, it was noted that signature stamps are used by secretaries showing approval of invoices. There is concern in the accounts payable department that the principals are not actually approving the invoices.

Recommendation:

We recommend that a policy be put into place that principals are meeting with their secretaries to review and approve all invoices that the secretaries' approve using the principal's signature stamp.

New Vendor Setup

Segregation of duties that would make it impossible for an employee who runs checks to also set up a new vendor is an important control to prevent fraud.

Findings:

During our fraud interviews, it was noted that the employees that process accounts payable have the ability to set up new vendors.

Recommendation:

There should be a control in the computer system that will not allow employees that process accounts payable to set up new vendors.

Approved Vendors

Disbarred vendors are not allowed to be used on jobs that are paid for with federal funds.

Findings:

During our fraud interviews, it was noted that there is no policy in place to ensure vendors are compared to the disbarred list before approving them.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS - Continued

Approved Vendors - Continued

Recommendation:

We recommend that the School District implement a formal policy that requires all vendors to be compared to the disbarred list before approval for use. We also recommend that the School District compare the disbarred list to their approved vendor list on a regular basis.

Conflict of Interest

Conflicts of interest may occur when customers purchase services or products from companies where a relative or close friend is benefiting from the use of that vendor.

Findings:

During our fraud interviews, it was noted that some vendors that are used by the School District may have a conflict of interest with current employees of the School District.

Recommendation:

We recommend that the School District implement a conflict of interest policy. A well-structured conflict of interest policy contains the following information:

- A statement that officers, directors, and employees should avoid conflicts of interest, including the appearance of conflicts, and that there is a duty to disclose conflicts when they become apparent to the individual.
- Definitions of what constitutes a conflict of interest.
- Disclosure requirements.
- Methods of resolving conflicts.
- Penalties for violations of the policy.

Inactive Bank Accounts

Inactive bank accounts can be susceptible to misuse by someone seeking to misappropriate cash.

Findings:

During our testing of the bank reconciliations, we noted that the School District has a bank account open that has no activity. The School District receives a zero balance statement for this account.

Recommendation:

We recommend that the School District review the need for the existing bank account and close any that are no longer deemed necessary.



To the Members of the Board of Education of the Rochester Community School District, Michigan

We have audited the financial statements of the Rochester Community School District, Michigan for the year ended June 30, 2007, and have issued our report thereon dated November 9, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Generally Accepted Auditing Standards

Our responsibility is to express an opinion on the financial statements based on our audit. This audit is to be conducted in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable, but not absolute assurance about whether the financial statements are free of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Rochester Community School District, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Rochester Community School District, Michigan are described in Note 1 to the financial statements.

DOEREN MAYHEW

Significant Accounting Policies - Continued

No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2007. We noted no transactions entered into by the School District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance.

Management's Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Long-Term Debt

Liabilities for reported and unreported workers' compensation and health insurance claims are estimated based upon the history of the School District and other similar institutions. We have performed tests of the liabilities to satisfy ourselves as to its reasonableness in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the School District's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the School District, either individually or in the aggregate, indicate matters that could have a significant effect on the School District's financial reporting process.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation With Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a second opinion on certain situations.

DOEREN MAYHEW

Consultation With Other Accountants - Continued

If a consultation involves application of an accounting principle to the School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Major Issues Discussed With Management Prior to Refention

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Education and management of the Rochester Community School District, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

DOEREN MAYHEW

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November 9, 2007 Troy, Michigan